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## Compulsory Trademark Licensure as a Remedy for Monopolization

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## COMPULSORY TRADEMARK LICENSURE AS A REMEDY FOR MONOPOLIZATION

A trademark, under present American law, confers upon its holder the exclusive right to identify goods with a mark, although it does not bar others from marketing like goods under a different trademark.<sup>1</sup> The exclusive use of a trademark, although not in itself an antitrust violation,<sup>2</sup> may be the source of considerable economic power which can operate to the detriment of a competitive marketplace.<sup>3</sup> For this reason, the courts have long recognized that trademarks can be used, or misused, to violate the antitrust laws.<sup>4</sup> While the courts have condemned the use of trademarks to violate the antitrust laws, they have not yet directed that antitrust violators make their trademarks available to competitors. Although compulsory patent licenses are an accepted remedy for similar antitrust violations,<sup>5</sup> the issue of compulsory trademark licensing has not to date been vigorously litigated. Some courts which have commented on the possibility have been hesitant to impose what they perceive as a drastic remedy.<sup>6</sup>

In August 1976, a Federal Trade Commission (FTC) Administrative Law Judge (ALJ) took the unprecedented step of ordering compulsory trademark

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1. This article will be concerned exclusively with trademarks, which are used to identify products, and will not discuss trade names, which are used to identify companies and corporations. See, e.g., E. KINTNER & J. LAHR, AN INTELLECTUAL PROPERTY LAW PRIMER 226 (1975).

The use of trademarks to identify makers or sources of goods dates from antiquity, and for a time trademarks were employed as a significant means of maintaining monopoly power. However, with the dissolution of medieval guilds and the prohibition of manufacturing monopolies, the concept of trademark protection became divorced from the protection of monopolies. See Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975). See also Behrendt, *Trademarks and Monopolies—Historical and Conceptual Foundations*, 51 TRADEMARK REP. 853, 853-59 (1961).

2. See, e.g., *McCormack v. Theo. Hamm Brewing Co.*, 284 F. Supp. 158 (D. Minn. 1968).

3. See, e.g., *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972).

4. See, e.g., *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951).

5. Compulsory licensure as an antitrust remedy compels holders of intellectual property to license it to competitors. See, e.g., *United States v. National Lead Co.*, 332 U.S. 319 (1947).

6. E.g., *Switzer Bros. v. Locklin*, 297 F.2d 39 (7th Cir. 1961), cert. denied, 369 U.S. 851 (1962).

licensure as relief in a monopolization case. In *Borden, Inc.*,<sup>7</sup> ALJ Daniel H. Hanscom found that Borden, the maker of ReaLemon Lemon Juice, had violated section 5 of the FTC Act by actively maintaining a monopoly of processed lemon juice. The ReaLemon brand, virtually a generic term for processed lemon juice, held approximately 90% of the processed lemon juice market and commanded premium prices of 25 to 30 cents per unit over competitive products. The ALJ concluded that the dominance of the ReaLemon brand and its public acceptance were a source of monopoly power and that Borden had illegally used discriminatory area pricing and promotions to maintain that monopoly.<sup>8</sup> He held that the only effective relief would be compulsory licensing of the "ReaLemon" brand name and ordered that Borden license the mark to competitors, at a royalty of not more than one-half of one percent of dollar sales, for a period of 10 years.

The FTC staff has also recommended compulsory trademark licensing in a case against the major cereal manufacturers.<sup>9</sup> The complaint in that action alleges that the respondents, whose sales accounted for 90% of all ready-to-eat cereal sales in 1970, have over a 30-year period engaged in activities which have resulted in an extremely concentrated, noncompetitive ready-to-eat cereal market.<sup>10</sup> FTC complaint counsel contend that the respondents' proliferation of essentially similar cereal brands and use of trademarks to accentuate insignificant differences between brands have been instrumental in maintaining a noncompetitive market structure and have prevented smaller concerns from making inroads into the market. The Commission attorneys argue that compulsory licensing of existing and future cereal trademarks on a royalty-free basis for a specified time period is essential to restoration of competition in that market.<sup>11</sup> The issues raised in the cereal case are presently being litigated, and a decision has not been issued on the legality of the cereal companies' actions or the necessity for compulsory licensing.

The *ReaLemon* case and the cereal complaint represent a major breakthrough in antitrust remedies. This article will examine the interplay between trademark and antitrust laws and the implications of compulsory trademark licensure for both.

#### I. TRADEMARKS, ANTITRUST VIOLATIONS, AND REMEDIES

The definition of a trademark indicates one of its primary functions in the

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7. No. 8978 (F.T.C., Aug. 19, 1976).

8. *Id.* at 98.

9. Named as respondents are Kellogg, General Mills, General Foods, and Quaker Oats. Kellogg Co., No. 8883 (F.T.C., May 4, 1971).

10. *Id.*

11. See Complaint Counsel's Trial Brief, Volume II, Legal Contentions and Case Authorities, Kellogg Co., No. 8883 (F.T.C., filed Feb. 17, 1976).

marketplace, the identification of the goods of a particular manufacturer or merchant.<sup>12</sup> The Lanham Act of 1946<sup>13</sup> defines a trademark as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."<sup>14</sup> The exclusive right to a particular trademark vests in the first party to use it to identify goods or merchandise of a particular business.<sup>15</sup> Sole use of a mark may be secured by registration under the Lanham Act, although the recognition of marks which have not been registered under the federal statute is often permitted under state law.<sup>16</sup>

Although the identification function of trademarks remains the legal basis for their protection, that particular role may be of diminishing significance in the modern marketplace where the consumer often does not know or care who manufactures a particular product.<sup>17</sup> At the same time two practical functions of trademarks have assumed increasing importance. They act as a guarantee to the consumer that the product purchased today will be identical to a previously purchased product bearing the same mark. They also serve to advertise a product; when a symbol is known to the public, the package bearing the trademark itself becomes an advertisement. In that sense, the trademark has been said to "reach over the shoulder of the retailer" and across the latter's counter straight to the consumer."<sup>18</sup> This selling power often depends as much on the public acceptance of the trademark as upon the merit of the goods to which it is affixed, and, as a result of these advertising and guarantee functions, trademarks often become significant competitive weapons.<sup>19</sup>

When a trademark has become so familiar that it assumes the status of a generic term, the exclusive right to its use may be lost.<sup>20</sup> A word will be

12. See Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

13. 15 U.S.C. §§ 1051-1127 (1970). The Act began federal trademark registration and provided for access to the federal courts in trademark cases. *Id.* §§ 1051, 1071.

14. *Id.* § 1127.

15. See, e.g., *Rolley, Inc. v. Younghusband*, 204 F.2d 209 (9th Cir. 1953).

16. See 3 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION TRADEMARKS AND MONOPOLY* § 76.1, at 274 (3d ed. 1967).

17. See Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210 (1931); Schechter, *supra* note 12, at 814.

18. Schechter, *supra* note 12, at 818, citing to 1 H. WELLS, *THE WORLD OF WILLIAM CLISSOLD* 238 (1926). See also, *Diamond*, *supra* note 1, at 289-90; 3 R. CALLMANN, *supra* note 16, § 65.3, at 12; *Northam Warren Corp. v. Universal Cosmetic Co.*, 18 F.2d 774 (7th Cir. 1927).

19. See *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942); 3 R. CALLMANN, *supra* note 16, § 65, at 3.

20. See generally, Zivin, *Understanding Generic Words*, 63 TRADEMARK REP. 173 (1973).

considered generic if, in the public understanding, it refers to a particular type of product rather than to a particular brand or source of manufacture.<sup>21</sup> Aspirin,<sup>22</sup> brassiere,<sup>23</sup> cola,<sup>24</sup> thermos,<sup>25</sup> and yo-yo<sup>26</sup> are among the words which began as trademarks, but are now in the public domain. In determining whether a term has become generic, the courts look to its principal significance,<sup>27</sup> and the trademark owner will be deprived of his exclusive rights only when there is conclusive evidence of the changed character of the mark.<sup>28</sup> When the word is found to have become generic in meaning, the trademark holder is deprived of his sole right to use the term to describe his product because the term now effectively describes not only his product, but an entire genus of products.<sup>29</sup>

A trademark which has not become generic may be considered a monopoly in the limited sense that it confers upon the owner the exclusive right to manufacture and sell goods bearing that trademark.<sup>30</sup> However, in contrast to the rights attached to patents and copyrights, the exclusive use of a trademark does not prevent a competitor from marketing like goods under a different name.<sup>31</sup> Since the only exclusive right is the use of a particular mark,

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21. See, e.g., *Dresser Indus., Inc. v. Heraeus Engelhard Vacuum, Inc.*, 395 F.2d 457 (3d Cir. 1968); *Feathercombs, Inc. v. Solo Products Corp.*, 306 F.2d 251 (2d Cir. 1962); *Telechron, Inc. v. Telicon Corp.*, 198 F.2d 903 (3d Cir. 1952); *DuPont Cellophane Co. v. Waxed Products Co.*, 85 F.2d 75 (2d Cir. 1936); *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921). A trademark owner may attempt to protect his trademark by objecting to its inclusion in dictionaries and to its use in books, articles, and public documents.

22. See *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921).

23. See *Charles R. De Bevoise Co. v. H. & W. Co.*, 69 N.J. Eq. 114, 60 A. 407 (1905).

24. See *Coca-Cola Co. v. Snow Crest Beverages Inc.*, 162 F.2d 280 (1st Cir. 1947); *Dixi-Cola Labs., Inc. v. Coca-Cola Co.*, 117 F.2d 352 (4th Cir. 1941).

25. See *American Thermos Products Co. v. Aladdin Indus., Inc.*, 207 F. Supp. 9 (D. Conn. 1962), *aff'd sub nom. King-Seeley Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577 (2d Cir. 1963).

26. See *Donald F. Duncan, Inc. v. Royal Tops Mfg. Co.*, 343 F.2d 655 (7th Cir. 1965).

27. See, e.g., *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938). The issue of when a trademark becomes a generic word often arises as a defense in infringement actions.

28. See, e.g., *Thomas Pride Mills, Inc. v. Monsanto Co.*, 155 U.S.P.Q. (BNA) 205 (N.D. Ga. 1967).

29. See 1 J. MCCARTHY, *TRADEMARKS AND UNFAIR COMPETITION* § 12.1, at 406 (1973).

30. Cf. 1 R. CALLMANN, *supra* note 16, § 15.5, at 460.

31. See, e.g., *Coca-Cola Co. v. Old Dominion Beverage Corp.*, 271 F. 600, 603-04 (4th Cir.), *cert. denied*, 256 U.S. 703 (1921); *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969), *aff'd*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971).

trademark protection, in theory, is not at odds with antitrust policy,<sup>32</sup> and, in fact, it promotes competition by allowing consumers to make an informed choice among a variety of competitive articles. It protects the consumer's interest in knowing that he is purchasing the product that he wants.<sup>33</sup>

Although the monopoly over a particular trademark is limited, it may nevertheless yield its owner considerable economic power.<sup>34</sup> Because of the trademark's role in creating consumer demand for a product, its effect of fostering dominant positions in the market is increasing.<sup>35</sup> By differentiating his product from that of his competitors, and thus persuading the consumer that no other product is as good, a manufacturer can "create a partial immunity from the chills and fevers of competition."<sup>36</sup> When a seller is able, through product differentiation, to create a consumer preference for his product, he may be able to raise prices without jeopardizing his position in the market.<sup>37</sup> Similarly, the difficulty of enticing the consumer away from a suc-

32. See generally Lunsford, *Trademarks and the Antitrust Law Complete Compatibility—No Divorce Needed*, 65 TRADEMARK REP. 463 (1975); Oppenheim, *The Public Interest in Legal Protection of Industrial and Intellectual Property*, 40 TRADEMARK REP. 613 (1950); Pattishall, *Trade-Marks and the Monopoly Phobia*, 50 MICH. L. REV. 967 (1952).

33. See *Standard Oil Co. v. Humble Oil & Ref. Co.*, 363 F.2d 945, 954 (5th Cir. 1966), *cert. denied*, 385 U.S. 1007 (1967); *General Baking Co. v. Gorman*, 3 F.2d 891, 893 (1st Cir.), *cert. denied*, 268 U.S. 705 (1925); Pattishall, *supra* note 32, at 971; Timberg, *Trademarks, Monopoly, and the Restraint of Competition*, 14 LAW & CONTEMP. PROB. 323, 325 (1949). *Contra*, *Eastern Wine Corp. v. Winslow-Warren Ltd.*, 137 F.2d 955, 957 (2d Cir.), *cert. denied*, 320 U.S. 758 (1943).

This was the stance taken by the authors of the Lanham Act. See S. REP. NO. 1333, 79th Cong., 2d Sess. 4 (1946):

Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not. . . .

34. See *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972) (trademark can be "tying" item for tying arrangement violation in restraint of trade).

35. See Hatab, *The Trademark and Its Function in the Control of Commercialization*, 65 TRADEMARK REP. 83 (1975).

36. BROWN, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1183 (1948). See also J. BAIN, *INDUSTRIAL ORGANIZATION* 223-50 (2d ed. 1968); E. CHAMBERLIN, *THE THEORY OF MONOPOLISTIC COMPETITION* (1946); Mueller, *Sources of Monopoly Power: A Phenomenon Called 'Product Differentiation'*, 2 ANTITRUST L. & ECON. REV. 59 (Summer 1969); Papandreou, *The Economic Effect of Trademarks*, 44 CALIF. L. REV. 503 (1956). *But see* Oppenheim, *supra* note 32.

37. See Comment, *Abuse of Trademarks: A Proposal for Compulsory Licensing*, 7

cessfully differentiated brand may deter the entry of new competition into the market.<sup>38</sup> Thus through successful brand differentiation the seller attains monopoly power,<sup>39</sup> that is, the power to control prices and exclude competition.<sup>40</sup>

Despite these significant advantages, the exclusive use of trademarks, and even their aggressive and extensive use, does not itself violate the antitrust laws.<sup>41</sup> Monopolization charges based on a defendant's aggressive use of trademarks, such as registration of many different marks, massive advertising, and infringement suits on mere "colorable similarity", have failed.<sup>42</sup> The courts have, however, long condemned the use of trademarks in furtherance of schemes that do violate the antitrust laws. In *Timken Roller Bearing Co. v. United States*,<sup>43</sup> the Supreme Court held that restraints of trade could not be justified on the ground that they were part of a valid trademark licensing program.<sup>44</sup> In *Timken*, a United States roller bearing manufacturer was charged with conspiring with a British and a French manufacturer to allocate territorial markets among the three manufacturers. Timken defended on the ground that the territorial restraints were only incidental to the trademark contracts. The Court concluded that this contention was refuted by the district court's finding that the trademark provisions of the agreements were subsidiary and secondary to the purpose of allocating markets. It emphasized that the agreements went beyond the protection of the use of the trade name, Timken, and provided for the control of the manufacture and sale of ball bearings whether displaying the trademark or not. The Court concluded that "[a] trademark cannot be legally used as a device for Sherman Act violation."<sup>45</sup> *Timken* stands for the proposition that the use

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U. MICH. J. OF L. REF. 644, 646 (1974).

38. See J. BAIN, *supra* note 36, at 255-60; Papandreou, *supra* note 36, at 509.

39. See Timberg, *supra* note 33, at 325-29.

40. E.g., *United States v. E.I. duPont & Co.*, 351 U.S. 377, 391 (1956); *United States v. Griffith*, 334 U.S. 100, 107 (1948); *American Tobacco Co. v. United States*, 328 U.S. 781, 811 (1946). Product differentiation is not limited to competitors. Distinctions are often created between virtually identical goods produced by the same firm. Hatab, *supra* note 35, at 83.

41. *McCormack v. Theo. Hamm Brewing Co.*, 284 F. Supp. 158 (D. Minn. 1968) (complaint alleging conspiracy to monopolize, monopolization or attempted monopolization of defendants trademarked product failed to state a cause of action); *Merrimac Hat Corp. v. Crown Overall Mfg. Co.*, 91 F. Supp. 49 (S.D.N.Y. 1950), *aff'd per curiam*, 186 F.2d 505 (2d Cir. 1951).

42. See, e.g., *Drop Dead Co. v. S.C. Johnson & Son*, 326 F.2d 87, 96 (9th Cir. 1963), *cert. denied*, 377 U.S. 907 (1964).

43. 341 U.S. 593 (1951).

44. *Id.* at 598-99.

45. *Id.* at 599.

of trademarks as instruments, or as reinforcing and peripheral elements, of contracts or combinations in restraint of trade will be condemned as violative of the antitrust laws.<sup>46</sup>

Although it is well established that trademarks may be vehicles for anti-competitive conduct, loss of the exclusive right to use a trademark has not been a generally accepted remedy for antitrust violations. Nonetheless, forfeiture of trademark rights because of antitrust misconduct has been discussed in three contexts: consent decrees ordering dedication or injunction of enforcement of trademarks, judgments imposing limitations on trademark rights short of compulsory licensure or dedication, and the assertion of antitrust violations as an affirmative defense in trademark infringement actions.

Dedication and injunction of enforcement of trademarks have been ordered in consent decrees in cases brought by the Department of Justice Antitrust Division.<sup>47</sup> Dedication, in contrast to compulsory licensure, is formal transfer of the trademark to the public domain by notification of the appropriate governmental agency. It usually results in forfeiture of the trademark without compensation, whereas compulsory licensure may be royalty-free, or at a rate specified in the final decree, or at a reasonable royalty. Injunction of enforcement does not require transfer to the public domain, but has an effect similar to dedication in that it does not include a

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46. See, e.g., 2 J. MCCARTHY, *supra* note 29, § 31.23, at 415; Behrendt, *supra* note 1, at 862; Timberg, *supra* note 33, at 324. See also *United States v. Topco Assocs.*, 405 U.S. 596 (1972) (territorial restrictions in trademark license granted by supermarket co-operatives illegal per se as horizontal division of markets among competitors); *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967) (per se illegal for seller of trademarked goods to impose territorial or customer restrictions on purchasing distributors); *United States v. Sealy, Inc.*, 388 U.S. 350 (1967) (trademark license agreements restricting each licensee to manufacture and sale in designated area per se illegal); *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972) (trademark can be a "tying" item for tying arrangement violation in restraint of trade); *United States v. Lever Bros., Co.*, 216 F. Supp. 887 (S.D.N.Y. 1963) (acquisition of trademarks may be a violation of anti-merger laws).

47. In *United States v. A.B. Dick Co.*, 1948-49 Trade Cas. ¶ 62,233 (N.D. Ohio 1948), in which the Department of Justice charged A.B. Dick and others with conspiring to restrain trade in duplicating equipment and with monopolization of the duplication equipment industry, the consent decree included the requirement that A.B. Dick dedicate its trademark "Mimeograph" to the public without compensation both in the United States and abroad. Similarly, in *United States v. Wallace & Tiernan Co.*, 1954 Trade Cas. ¶ 67,828 (D.R.I. 1954), manufacturers and distributors charged with market allocation, price fixing, and exclusive dealing agreed in a consent decree to dedicate three registered trademarks and to forego filing suits based upon the three trademarks. In *United States v. Gamewell Co.*, 1948-49 Trade Cas. ¶ 62,236 (D. Mass. 1948), the defendant was enjoined in a consent decree from enforcing its trademark, but was not required to transfer them to the public domain.



mechanism for compensation of the trademark holder for its use by others.<sup>48</sup>

A trademark-related remedy short of compulsory licensure was ordered in *United States v. General Electric Co.*<sup>49</sup> To remedy General Electric's monopolization of electric lamps, the district court ordered, among other things, that General Electric limit the use of its mark to one percent of its sales of certain products in any year,<sup>50</sup> but the court did not require that others be permitted to use the General Electric trademarks. Judicial reluctance to tamper further with trademark rights was voiced in *Switzer Brothers, Inc. v. Locklin*,<sup>51</sup> in which the court characterized divestiture of rights in a trademark as a drastic remedy which should be applied with caution.<sup>52</sup> This case was a patent infringement suit brought by the manufacturer of "Day-glo" paint, in which the defendant counterclaimed that the "Day-glo" trademark had acquired an artificial value as a result of the owner's unlawful conduct. The court refused to order the requested remedy of an injunction against future use of the trademark, but hinted that broader remedial powers might be used in a government suit.<sup>53</sup> Significantly, the relief requested in *Switzer* involved complete non-use of the mark rather than compulsory licensure with compensation.

In trademark infringement cases, proof that the trademark upon which the plaintiff is bringing suit was a significant part of activity which violated the antitrust laws may result in nonenforceability of the trademark<sup>54</sup> and a decree cancelling the registration of the mark.<sup>55</sup> Antitrust misconduct which is merely collateral to the plaintiff's trademark will not result in denial of trade-

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48. For a discussion of the controversy over whether reasonable royalty licensing is preferable to forfeiture without compensation, see REPORT OF THE ATTORNEY GENERAL'S NAT'L COMM'N TO STUDY THE ANTITRUST LAWS 255-62 (1959).

49. 115 F. Supp. 835 (D.N.J. 1953), *modifying* 82 F. Supp. 753 (D.N.J. 1949).

50. *Id.* at 858.

51. 297 F.2d 39 (7th Cir. 1961), *cert. denied*, 369 U.S. 851 (1962).

52. *Id.* at 48.

53. *Id. Cf.* Ford Motor Co. v. United States, 405 U.S. 562 (1972) (divestiture of acquired assets including trade name ordered in merger case).

54. See *Phi Delta Theta Frat. v. J.A. Buchroeder & Co.*, 251 F. Supp. 968 (W.D. Mo. 1966) (enforcement of trademarks denied where several fraternities registered trademarks in order to eliminate competition). *Cf.* *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969), *aff'd*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971) (proof that trademark was valuable asset and that trademarks were affixed to goods which were subject of anti-competitive activity not sufficient to render trademarks unenforceable); *Zenith Radio Corp. v. Marshall-Wells Co.*, 1959 Trade Cas. ¶ 69,343 (N.D. Ill. 1959) (full factual determination necessary before determination that alleged illegal trade practices related to trademark); *Sanitized, Inc. v. S.C. Johnson & Sons*, 23 F.R.D. 230 (S.D.N.Y. 1959) (sufficiency of defense to infringement action based upon plaintiff's alleged use of trademark to violate antitrust laws would be determined at trial).

55. See *Phi Delta Theta Frat. v. J.A. Buchroeder & Co.*, 251 F. Supp. 968 (W.D. Mo. 1966).

mark enforcement.<sup>56</sup> The defendant must show that the trademark is the "basic and fundamental vehicle required and used to accomplish the violation."<sup>57</sup> This is the one limited circumstance in which courts have acted to deprive a trademark owner of his rights.

In contrast with trademark law, compulsory licensure is an accepted remedy for antitrust violations involving patents.<sup>58</sup> Use of this remedy has been deemed an appropriate means of restoring competition to markets in which competition has been foreclosed by illegal restraints.<sup>59</sup> Compulsory patent licensing makes technology previously exclusively used by the patentee available to competitors and potential competitors so that they may effectively compete with the antitrust violator in the sale of the patented products. In this way, the potentially long lasting effects of prior restraints of trade may be negated. Compulsory patent licenses enable competitors to make inroads on the antitrust violator's illegal hold on the market.

Although in certain circumstances compulsory trademark licensure may be an equally effective means of restoring competition to a noncompetitive market, the difference in the nature of the monopolies involving patents from those involving trademarks suggests that trademark licensing might be appropriate in fewer situations than patent licensing. Whereas a patent confers upon its owner the exclusive use of the patented technology, which in some cases is the key to an entire industry, a trademark does not foreclose others from selling similar, or even identical, products.<sup>60</sup> Thus the formidable

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56. See *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. 1309 (S.D.N.Y. 1969), *aff'd*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971) (trademark not "competent producing cause" of alleged antitrust violations); *Forstmann Woolen Co. v. Murray Sices Corp.*, 10 F.R.D. 367 (S.D.N.Y. 1950) (defense which failed to allege that trademark was integral part of antitrust violation insufficient).

57. *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. at 1315.

58. See, e.g., *United States v. Glaxo Group Ltd.*, 410 U.S. 52 (1973) (compulsory patent licensure appropriate remedy for patent pool covenant restricting bulk sales and resales); *United States v. United States Gypsum Co.*, 340 U.S. 76 (1950) (defendants who had fixed prices were ordered to license patents at a reasonable royalty); *United States v. National Lead Co.*, 332 U.S. 319 (1947) (defendants who had used patent licenses to allocate markets ordered to grant to any applicant nonexclusive license of certain patents at uniform reasonable royalty); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945) (defendants who monopolized trade by acquisition of patents and exclusion of competition could properly be required to grant alleged patent infringers nondiscriminatory and nonrestrictive licenses at standard royalties); *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954) (defendant guilty of monopolizing shoemaking machinery ordered to license patents on a reasonable royalty basis).

It is within the FTC's power to order compulsory patent licensing. *Charles Pfizer & Co. v. FTC*, 401 F.2d 574, 585-86 (6th Cir. 1968), *cert. denied*, 394 U.S. 920 (1969).

59. See *International Salt Co. v. United States*, 332 U.S. 392, 401 (1947).

60. *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 298 F. Supp. at 1314; *Stedman, Patent and Trade-mark Relief in Antitrust Judgments*, 10 FED. B.J. 260, 269-70 (1949).

power inherent in a patent should be subject to some checks that may be inappropriate or overly severe in the trademark area. Nevertheless, there are cogent arguments that compulsory licensing is appropriate in trademark-antitrust cases. Trademarks are creatures of the common law, now reinforced by statute, in contrast to patent rights which are derived from a constitutional guarantee. Moreover, trademarks have proven to be potent anticompetitive weapons not subject to the patent's 17-year time limit. Despite these arguments, prior to *Borden*, no court or administrative tribunal had ordered compulsory trademark licensing as a remedy in a litigated antitrust case.

## II. COMPULSORY LICENSING OF THE REALEMON AND CEREAL TRADEMARKS

In July, 1974, the Federal Trade Commission issued a complaint charging that Borden, Inc. had violated section 5 of the FTC Act by monopolizing the marketing and sale of reconstituted lemon juice. In particular, the complaint charged that Borden, through its unit ReaLemon Foods, had used its dominant position in the market to impede the growth of smaller reconstituted lemon juice manufacturers and to prevent competition in the sale of reconstituted lemon juice. The complaint alleged that the relevant market was the marketing and sale of reconstituted lemon juice in the United States and that Borden's ReaLemon brand accounted for approximately 80% of reconstituted lemon juice sales in 1973. In the complaint counsel's notice of contemplated relief, the FTC staff indicated that they would seek compulsory licensing of the ReaLemon trademark to help dissipate the monopoly.<sup>61</sup>

After a seven week trial, the Administrative Law Judge (ALJ) issued an initial decision. He concluded that processed lemon juice was the proper submarket for consideration of Borden's anticompetitive conduct, that Borden possessed a monopoly position and monopoly power in that submarket, that Borden had the purpose and intent of maintaining its monopoly power, and that it effectuated that purpose through discriminatory pricing and promotions.<sup>62</sup> Under these facts, Borden was held to have violated section 5 of the F.T.C. Act.<sup>63</sup>

Of particular interest in the case is the relationship which the ALJ found between the ReaLemon trademark and Borden's monopoly power in the processed lemon juice market. In concluding that ReaLemon was the dominant brand and was virtually a generic name for bottled lemon juice, the ALJ relied upon Borden's own strategy documents. One of these docu-

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61. Complaint No. 8978, at 128 (F.T.C., filed July 8, 1974).

62. *Borden, Inc.*, No. 8978, at 162 (F.T.C., Aug. 19, 1976).

63. 15 U.S.C. § 41 (1970).

ments stated that “[h]istorically, ReaLemon has been THE total market for both bottled lemon and lime juices.”<sup>64</sup> The ALJ noted that respondent touted ReaLemon as “one of the greatest brand names in the history of the supermarket.”<sup>65</sup> He cited Borden’s awareness that the substantial price differential commanded by the ReaLemon brand was unusual and attributed it to ReaLemon’s premium brand image which had been created through extensive advertising and promotion over the years.<sup>66</sup> He determined that the dominance of the brand and its public acceptance were a substantial barrier to entry in the processed lemon juice market. Relying on the testimony of an economist, the ALJ concluded that the ReaLemon trademark was a factor in Borden’s monopoly power because competitors, without the superior brand recognition that the ReaLemon mark carried, had to compete on the basis of price, and that ReaLemon, because of the high profitability of the brand on a national scale, was able to withstand regional price competition more easily than its competitors.<sup>67</sup> The ALJ determined that the ReaLemon trademark was a powerful force in the marketplace and that Borden had engaged in activity calculated to exclude competition, but he did not label Borden’s use of its trademark to perpetuate its monopoly as a trademark misuse. And although he commented on the near-generic status of the ReaLemon trademark,<sup>68</sup> his decision was not a judicial determination that the trademark had in fact become generic. This issue was not litigated and it is doubtful that the Federal Trade Commission would be the proper forum for the determination of generic status.

In fashioning a remedy, the ALJ stated that relief in a monopoly case should “put an end to the monopoly position, and break up or render impotent the monopoly power found to have been preserved and maintained in violation of law.”<sup>69</sup> He concluded that enjoining the acts and practices by which Borden preserved its monopoly would not be adequate since the heart of Borden’s monopoly power was the ReaLemon trademark. Compulsory licensing of the trademark was determined to be the only effective relief. The ALJ found precedent for compulsory trademark licensing in patent cases, stating that “[a] requirement for compulsory licensing of a trademark . . . is not essentially different from a requirement of compulsory licensing of a patent.”<sup>70</sup>

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64. Borden, Inc., No. 8978, at 52, 60 (F.T.C., Aug. 19, 1976).

65. *Id.* at 60.

66. *Id.* at 52, 60.

67. *Id.* at 67-77.

68. *Id.* at 59.

69. *Id.* at 162-63.

70. *Id.* at 165.

Borden was ordered, for a period of 10 years, to license the ReaLemon trademark to all those seeking its use at a nominal royalty of one-half of one percent of sales under the trademark. The order provided that Borden could require that licensees conspicuously disclose the name of the manufacturer or distributor of the product being marketed under the ReaLemon name. Borden was also permitted to require that licensees adhere to reasonable quality control standards. These standards were to be administered by an independent third party acceptable to Borden and to the licensees. Borden was ordered to advertise the availability of licenses in three significant trade journals once every three months for five years after the order issued. Additionally, Borden was ordered to cease granting discriminatory price reductions, selling ReaLemon below cost or at unreasonably low prices, and granting promotional allowances which hindered, restrained, or eliminated competition.<sup>71</sup>

The FTC staff is also seeking compulsory trademark licensing in an action against the major cereal manufacturers<sup>72</sup> in which the complaint counsel contends that the respondents have dominated the relevant market through brand and product differentiation supported by intensive advertising.<sup>73</sup> To eliminate the respondents' monopoly power, the Commission staff proposes that Kellogg, General Mills, and General Foods be required to license for twenty years their existing trademarks royalty-free and to provide formulas and methods of production to any firm, other than those named as respondents, willing to comply with quality control standards. Moreover, complaint counsel urge that, in addition to licensure of existing trademarks, the three companies be required to license all new ready-to-eat cereal trademarks on a similar basis after five years of exclusive use.<sup>74</sup> The proponents of this remedy argue that licensing of the three cereal manufacturers' trademarks will encourage price competition, discourage brand proliferation, diminish advertising for promotion of new products, and entice new entrants into the market by reducing brand promotion costs.<sup>75</sup>

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71. *Id.* at 167-70. Since Borden is challenging the ALJ's ruling, the order will not become effective until the Commission itself has heard the case and renders an opinion on the matter.

72. Kellogg Co., No. 8883 (F.T.C., filed May 4, 1972). For an analysis of the complaint issued against the cereal manufacturers, see Scanlon, *Oligopoly and "Deceptive" Advertising: The Cereal Industry Affair*, 3 ANTITRUST L. & ECON. REV. 99 (Spring 1970); Note, *Oligopolies, Cereals and Section Five of the Federal Trade Commission Act*, 61 GEO. L.J. 1145 (1973).

73. Brief, *supra* note 11, at 46-58.

74. *Id.* at 120, 128-30. Additionally, the staff proposes divestiture of the assets of the four firms and formation of five additional firms from these assets. *Id.* at 122-25.

75. See note 61 *supra*.

The cereal case is more radical than *Borden* in both legal theory and remedy. *Borden* is, with the exception of the role of the ReaLemon trademark and the remedy prescribed, a rather ordinary monopolization case in which the respondent possesses, and has actively maintained, a disproportionately large share of the market. In contrast, the cereal case, setting forth the untried theory of shared monopoly, challenges the oligopolistic market structure of the cereal industry. The relief requested in the cereal case differs from that ordered in *Borden* in several respects. The cereal complaint seeks royalty-free trademark licensure, whereas *Borden* ordered some compensation, albeit minimal, to the trademark owner. Similarly, compulsory licensing for a 20-year period is recommended in the cereal complaint as opposed to the 10-year period ordered in *Borden*. Furthermore, in *Borden* the licensing of one extremely powerful trademark was required, whereas the cereal complaint seeks licensure of all ready-to-eat cereal trademarks, existing and future, held by the three companies.

### III. IMPLICATIONS OF COMPULSORY TRADEMARK LICENSING

The *Borden* decision and the cereal complaint indicate that the FTC Bureau of Competition will not hesitate to argue for compulsory licensing when it deems it an appropriate remedy for antitrust violations.<sup>76</sup> Although *Borden* is being appealed to the Federal Trade Commission itself,<sup>77</sup> the ALJ's decision is a significant extension of existing law. *Borden* represents a judgment that, when a trademark, because of extensive advertising and consumer acceptance, becomes a source of monopoly power, compulsory licensing is an appropriate means by which that monopoly power may be dissipated.<sup>78</sup> It is the first judicial recognition that when a monopoly of a particular product exists, a trademark which identifies the product may become a by-word with the public;<sup>79</sup> thus effective relief for antitrust violations must include dislodging the power associated with that trademark.<sup>80</sup> This new development may

76. See also Compulsory Patent Licensing by FTC Decree, Address by Owen M. Johnson, Jr., Director of Bureau of Competition, FTC, Before the Licensing Executives Society (U.S.A.), Inc., Oct. 27, 1976, at 10-11.

77. Respondent's Notice of Intent to Appeal, No. 8978 (F.T.C., filed Nov. 15, 1976).

78. Timberg, writing in 1949, urged that whether a trademark is the creature or the cause of a monopoly, trademark relief is an effective means of dissipating monopoly power because "the mere existence of a monopoly over the manufacture or distribution of a product necessarily confers upon the trademark . . . [a] quality of genericness. . . ." Timberg, *supra* note 33, at 344.

79. Stedman, *supra* note 60, at 271.

80. Moreover, the determination of an ALJ that it is within the existing powers of the FTC to order licensure of trademarks indicates that proposals for specific legislative authority for the FTC to institute compulsory licensure, see Comment, *supra* note 37, at 661-66, may be unnecessary.

be hailed as an appropriate and beneficial means of restoring competition to markets which are dominated by products bearing economically powerful trademarks.

Nevertheless, certain aspects of the *Borden* decision may be criticized. One deficiency of *Borden* is that, under the prevailing interpretation of the order,<sup>81</sup> licensing is limited to a period of 10 years, after which Borden will again have exclusive use of the trademark, provided that it has not become a generic word during the 10-year period. After the trademark has been used by Borden's competition for 10 years, consumers will be even more accustomed than they are now to purchasing processed lemon juice under the name ReaLemon. Therefore, after the period of compulsory licensing, ReaLemon may have even greater consumer acceptance than it has now and it will continue to be difficult for manufacturers to compete with Borden under their own trademarks.<sup>82</sup>

It is conceivable that this problem will not arise. Competitors may in fact use the ReaLemon trademark only to break into the market and then, anticipating the end of compulsory licensing and utilizing their improved financial situation, attempt to establish consumer recognition of their own trademarks by advertising and promotion. The Commission could facilitate this process by amending the order to require compulsory licensing for a longer period in order that Borden's competition might have more time to make inroads into the marketplace and begin to establish their own trademarks. Alternatively, the Commission could order compulsory licensure until it deems it no longer necessary: that is, until competition becomes viable without it. In the absence of such provisions, however, the order may ultimately benefit Borden in a way presumably not intended by the ALJ.

There is always the possibility that during the ten years of compulsory licensing the ReaLemon trademark will become a generic word. Although the ALJ did not hold that the trademark had become generic, he recognized that it was virtually a generic term.<sup>83</sup> During the ten-year compulsory licensing period, "ReaLemon" might become so linked in the public's mind with the product of processed lemon juice that it would cease to signify processed lemon juice produced by Borden. If this occurs, Borden's exclusive rights to the mark will be lost.<sup>84</sup> To the extent that this result is likely, it

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81. There is some ambiguity in the wording of the order and it has been suggested that the ALJ may have intended that Borden grant all applicants during a 10-year period perpetual licenses to the trademark.

82. 780 ANTITRUST & TRADE REG. REP. (BNA) A-6 (Sept. 14, 1976).

83. See note 68 & accompanying text.

84. See Brief of Respondent Borden, Inc. in Support of Its Appeal from the Initial

can be argued that Judge Hanscom's order goes beyond merely restoring competition to the marketplace. However, given the standard of proof required for a finding of generic status,<sup>85</sup> it is entirely possible that the trademark will not in fact become generic. This will depend upon the extent to which licensees and other competitors, in the exercise of good business judgment, undertake active promotion of their own trademarks in anticipation of the end of the 10-year compulsory licensing.<sup>86</sup> Thus the ALJ's order will not inevitably deprive Borden of its exclusive rights in the mark.

Although the trademarks involved in the cereal case are potent economic weapons, they are not near-generic in the sense of being synonymous with ready-to-eat cereal. Thus there is less likelihood that compulsory licensing would effectively push them over the generic line. Nevertheless, an order compelling the three cereal manufacturers to license their trademarks would be a significant extension of the *Borden* decision. *Borden* involved a classic situation long recognized by commentators,<sup>87</sup> if not judges, as appropriate for compulsory licensing; that is, a single trademark so closely identified with all processed lemon juice that it was itself a significant source of monopoly power. The cereal case, on the other hand, involves many trademarks which are potent economic forces not because they are closely linked in the public's mind with ready-to-eat cereal, but rather because their extensive numbers and rapid proliferation are means of diverting customers from competitive brands. If the Commission staff prevails in the cereal case, oligopolists who engage in product differentiation and brand proliferation as a means of erecting barriers to entry will be subject to forfeiture of trademark rights as a result of section 5 violations.

Critics of compulsory trademark licensure argue that it will create confusion because the consumer will be confronted with a whole array of ReaLemon from which he will have to choose,<sup>88</sup> and that it will destroy the function of the trademark as an indicator of source.<sup>89</sup> While compulsory li-

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Decision of the Administrative Law Judge, No. 8978, at 64 (F.T.C., filed Nov. 15, 1976) [hereinafter cited as Brief of Respondent].

85. See notes 20-29 & accompanying text.

86. Significant in this context is the recent introduction of Minute Maid lemon juice and a vigorous advertising campaign to promote it. See ADVERTISING AGE, Sept. 13, 1976, at 4.

87. See, e.g., Stedman, *supra* note 60, at 270.

88. Brief on Behalf of United States Trademark Association as Amicus Curiae, Borden, Inc., No. 8978, at 7 (F.T.C., filed Nov. 22, 1976) [hereinafter cited as Amicus Brief]; Brief of Respondent, *supra* note 84, at 57-60; Wall St. J., Oct. 14, 1976, at 22, col. 1; ADVERTISING AGE, Sept. 13, 1976, at 4.

89. Amicus Brief, *supra* note 88, at 6-9; Brief of Respondent, *supra* note 84, at 63. Additionally, critics urge that competitor-licensees will have no motivation to maintain



censure may have some of these effects, regular trademark licensure, which is now commonplace, creates similar problems.<sup>90</sup> Safeguards such as conspicuous identification of the manufacturer or distributor of the product<sup>91</sup> could lessen consumer confusion, and the provision for reasonable quality control standards<sup>92</sup> will insure that the consumer is buying a product of the quality to which he is accustomed. It should also be remembered that compulsory trademark licensing will only be ordered when antitrust violations have occurred and when trademark licensing is an appropriate vehicle to restore competition to the marketplace. In this context, the injury to the consumer from a non-competitive market must be weighed against the harm that will arise from the offering of several products bearing the same trademark.

One final deficiency of the *Borden* decision is the ALJ's assertion that compulsory trademark and patent licensing are not essentially different.<sup>93</sup> This facile assumption minimizes the very real differences between patents and trademarks.<sup>94</sup> The potential for anticompetitive activity always inheres in a patent, which carries exclusive rights to the technology it covers. The anticompetitive potential of a trademark, however, depends not upon the mere existence of the trademark, but upon its link in the consumer's mind with a certain kind of product, a connection which is usually nurtured by advertising and promotion.<sup>95</sup> Thus while a patent generally carries some economic power, a trademark's anticompetitive potential depends upon the extent to which its owner has attempted and succeeded, through extensive advertising and promotion, in making the trademark a household word. Guidance for when compulsory trademark licensing is appropriate will be obtained only with a forthright acknowledgment of the difference between patents and trademarks.

#### IV. CONCLUSION

The acceptance of compulsory trademark licensing as a remedy for antitrust violations could in the long run drastically alter marketing in this country. Companies which have spent fortunes attempting to foster con-

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quality standards; this will reflect badly upon the licensor and may subject the licensor to liability arising as a result of poor quality. Amicus Brief, *supra* note 88, at 10-11.

90. *Contra*, Amicus Brief, *supra* note 88, at 9. See generally Comment, *Quality Control and The Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963).

91. *Borden, Inc.*, No. 8978, at 167 (F.T.C., Aug. 19, 1976).

92. *Id.* at 168.

93. *Id.* at 165.

94. See, e.g., Amicus Brief, *supra* note 88, at 5-7; Brief of Respondent, *supra* note 84, at 60.

95. See 615 ANTITRUST & TRADE REG. REP. (BNA) A-13 (May 29, 1973).

sumer acceptance of a brand name would operate under the threat of having to share that consumer acceptance with competitors at a minimal return. The successfully differentiated brand could become a liability rather than an asset to those who violate the antitrust laws. Ultimately the use of compulsory licensing may promote price competition rather than competition through brand differentiation and help to bring the same goods to consumers at lower prices.

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